

Message Text

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C O N F I D E N T I A L STATE 295577

E.O. 11652:GDS

TAGS: EWWT, CA

SUBJECT: ST. LAWRENCE SEAWAY CONSULTATIONS

REFS: (A) STATE 274478

1. CANADIAN TEAM HEADED BY EXTERNAL AFFAIRS ASSISTANT UNDER SECRETARY PETER TOWE AND ST. LAWRENCE SEAWAY AUTHORITY PRESIDENT PAUL NORMANDEAU (INCLUDING TRANSPORT CANADA REP) VISITED WASHINGTON DECEMBER 2 FOR CONSULTATIONS ON ST. LAWRENCE SEAWAY TOLLS. U.S. SIDE WAS LED BY ASSISTANT SECRETARY JULIUS KATZ AND SEAWAY CORPORATION ADMINISTRATOR DAVID OBERLIN, AND INCLUDED REPRESENTATIVE FROM DOT.

2. TOWE PRESENTED WRITTEN STATEMENT OF CANADIAN OBJECTIVES IN REQUESTING CONSULTATIONS (COPY BEING POUCHED). STATE-CONFIDENTIAL

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MENT ASSERTS THAT 1959 AGREEMENT SETTING THE CURRENT SEAWAY

TOLLS SCHEDULE ENVISAGED TOLL STRUCTURE THAT WOULD CHANGE AS NEED REQUIRED. HOWEVER, CANADIAN REQUESTS FOR INCREASES WERE TURNED DOWN BY THE U.S. IN 1964 AND 1967. THIS IS THIRD AND VERY SERIOUS CANADIAN REQUEST FOR TOLL INCREASE, AND CANADA HOPES U.S. WILL AGREE. ORIGINAL TOLLS ON THE SEAWAY WERE INTENDED TO COVER O AND M COSTS PLUS INTEREST, AND REPAYMENT OF CAPITAL OVER 50 YEARS. SINCE 1973, HOWEVER, THE SEAWAY AUTHORITY HAS EXPERIENCED AN UNACCEPTABLE DEFICIT ON THE ENTIRE SYSTEM. LOCKAGE FEES ON THE WELLAND CANAL, WHICH IS CANADIAN OWNED BUT GOVERNED BY BILATERAL AGREEMENT, ARE INADEQUATE TO COVER COSTS. CUMULATIVE DEFICIT ON THE ENTIRE CANADIAN SYSTEM IN THE PERIOD FROM 1973 TO MARCH 1976 WAS 24.1 MILLION DOLLARS.

3. CANADA SEES SEVERAL REASONS FOR THE DEFICIT. THESE INCLUDE LOW TRAFFIC VOLUME IN THE EARLY 60'S, STATIC TOLL LEVELS, LARGE AND CONTINUING INVESTMENT EXPENDITURES, AND INFLATION. CANADIAN MINISTERS HAVE CONCLUDED THAT CONTINUING DEFICITS ARE UNACCEPTABLE. THEY HAVE INSTRUCTED EXTAFF TO RENEGOTIATE THE 1959 SEAWAY TOLLS AGREEMENT TO EXCLUDE THE WELLAND CANAL (SO THAT CANADA COULD SET TOLLS THERE UNILATERALLY) AND TO PROVIDE FOR AN ANNUAL REVIEW OF TOLLS TO ENSURE THAT THEY ARE ADEQUATE TO COVER OPERATING COSTS AND "NORMAL" CAPITAL EXPENDITURES, AND TO PROVIDE A ONE PERCENT RETURN ON INVESTMENT. AT PRESENT THIS WOULD MEAN WELLAND TOLLS OF 40 CENTS BULK AND 90 CENTS GENERAL, AND A 10 TO 15 PERCENT INCREASE IN TOLLS ON THE RIVER. IT IS HOPED THESE CHANGES CAN BE AGREED TO IN TIME FOR THE 1977 NAVIGATION SEASON, BUT IN TIME FOR THE 1978 SEASON AT THE LATEST. CANADA ATTACHES CONSIDERABLE IMPORTANCE TO EXCLUDING THE WELLAND CANAL FROM THE SEAWAY AGREEMENT PRIOR TO THE START OF THE 1977 SEASON.

4. AFTER EXPRESSING APPRECIATION FOR CANADIAN PRESENTATION, KATZ NOTED THAT REQUEST FOR RENEGOTIATION COMES AT AN AWKWARD TIME. BEFORE PROCEEDING U.S. NEEDS NEGOTIATING AUTHORITY, AND GIVEN THE TRANSITION IT IS NOT POSSIBLE TO SAY WHEN SUCH AUTHORITY MIGHT BE OBTAINED. WE WILL BE IN TOUCH WITH GOC FURTHER ON THIS POINT. IN THE MEANTIME, SOME CLARIFICATION OF THE CANADIAN POSITION WOULD BE USE-
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FUL. THE FIRST QUESTION WHICH OCCURS IS WHY IS IT NECESSARY TO REMOVE THE WELLAND CANAL FROM THE SEAWAY AGREEMENT? TOWE IMPLIED THAT REMOVAL OF THE CANAL FROM THE AGREEMENT MAY NOT IN FACT BE NECESSARY IF SOME OTHER MEANS CAN BE DEvised TO ACHIEVE THE OBJECTIVE: ESTABLISHMENT OF A SYSTEM UNDER WHICH TOLLS WILL BE ADEQUATE TO AVOID OPERATING DEFICITS. TOWE WONDERED WHY THE WELLAND CANAL WAS INCLUDED IN THE ORIGINAL SEAWAY TARIFF. OBERLIN

REPLIED THAT IT WAS INCLUDED AS PART OF A CONCEPT WHICH VIEWED THE GREAT LAKES-ST. LAWRENCE WATERWAY AS A SINGLE SYSTEM. KATZ ADDED THAT TOLL LEVELS ON THE WELLAND COULD DETERMINE WHETHER IT IS ECONOMICALLY FEASIBLE TO MAINTAIN OTHER SECTIONS OF THE WATERWAY. OBERLIN THEN ASKED WHETHER A PHASING-IN OF THE PROPOSED TOLL INCREASES COULD BE POSSIBLE, BUT TOWE REPLIED THAT PHASING SHOULD HAVE

BEGUN IN 1959. KATZ NOTED THAT U.S. CANNOT OBJECT IN PRINCIPLE TO THE USER-PAY IDEA. HOWEVER, WHERE THIS PRINCIPLE CREATES HARDSHIP, NORMAL PRACTICE IS TO EASE IT IN SOME WAY. FURTHER, IT IS NOT UNKNOWN FOR GOVERNMENTS TO PROMOTE DESIRABLE ACTIVITIES AT A CERTAIN COST TO THEMSELVES. MULDER FROM TRANSPORT CANADA NOTED THAT GOC IS CONCERNED ABOUT INEQUITABLE APPLICATION OF THE USER-PAY PRINCIPLE IN CANADA. FOR EXAMPLE, THERE IS GREAT RESISTENCE IN THE MARITIME PROVINCES TO ESTABLISHMENT OF THE USER-PAY PRINCIPLE ON SERVICES THERE BUT NOT ON THE SEAWAY.

5. NORMANDEAU THEN DISCUSSED SOME OF THE ECONOMIC CONSIDERATIONS INVOLVED. HE NOTED THAT WHEN THE SEAWAY WAS OPENED, TOLLS WERE A RADICAL DEPARTURE FROM CANADIAN PRACTICE, AND EMOTION RAN HIGH, PARTICULARLY IN THE WEST. HE ALSO SAID THAT SOME CRITICS OF TOLL INCREASES SEEM TO BE IGNORANT OF THEIR RELATIVE IMPORTANCE. FOR EXAMPLE, UNDER THE PROPOSED NEW SCHEDULE, THE TOLL FOR A BUSHEL OF WHEAT WOULD BE ABOUT 1.5 CENTS OUT OF A CURRENT VALUE OF 2.75 DOLLARS. GIVEN RECENT INCREASES IN RATES ON OTHER MODES OF TRANSPORTATION, THE GOC SEES NO POSSIBILITY OF DIVERSION OF GRAIN SHIPMENTS IN RESPONSE TO A SEAWAY TOLL INCREASE. NORMANDEAU THEN NOTED THAT CANADA HAS SPENT 225 MILLION DOLLARS ON SEAWAY IMPROVEMENTS SINCE 1959, CONFIDENTIAL

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NOTABLY ON CONSTRUCTION OF THE WELLAND BYPASS WHICH HE CLAIMED HAS IMPROVED SEAWAY EFFICIENCY. WITH REFERENCE TO IRON ORE, NORMANDEAU SAID THAT CURRENT SHIPMENTS ARE OF HIGHER VALUE SINCE THEY ARE MAINLY PELLETIZED RATHER THAN RAW ORE, AND THUS BETTER ABLE TO ABSORB HIGHER CHARGE PER TON. HE ALSO NOTED THAT TRANSPORTATION COST FOR IRON ORE FROM LABRADOR TO THE U.S. HAS DOUBLED SINCE 1970, BUT INDUSTRY HAS ABSORBED THIS COST. THE INCREASE ENVISAGED FOR IRON ORE IS FROM 45 CENTS A TON TO APPROXIMATELY ONE DOLLAR PER TON. NORMANDEAU ASSERTED THAT SINCE THE STEEL MILLS AND THE ORE MINES ARE OWNED BY THE SAME FIRMS, DECISIONS AS TO TRANSPORTATION ROUTE ARE MADE ON OTHER THAN ECONOMIC GROUNDS. OBERLIN AGREED THAT IRON ORE SHIPMENTS ARE PROBABLY RELATIVELY INSENSITIVE TO TOLL CHANGES. HE NOTED, HOWEVER, THAT SENSITIVITY VARIES GREATLY FROM

COMMODITY TO COMMODITY. TOWE OFFERED TO MAKE AVAILABLE TO THE U.S. THE ECONOMIC STUDIES ON WHICH NORMANDEAU'S STATEMENTS WERE BASED. KATZ SAID THAT WOULD BE HELPFUL.

6. TOWE THEN ASKED WHAT THE U.S. PROBLEM IS WITH EXCLUDING THE WELLAND CANAL FROM THE SEAWAY AGREEMENTS. KATZ RESPONDED THAT IT IS BASICALLY A POLITICAL QUESTION; IN 1959 THE WELLAND WAS INCLUDED AS PART OF A PACKAGE DEAL, AND IS STILL VIEWED AS PART OF A WHOLE SYSTEM. WHILE A

PROPOSAL TO REVIEW TOLL LEVELS PERIODICALLY IS NOT PROCEDURALLY DIFFICULT, IT IS NOT CLEAR HOW THE U.S. WOULD JUSTIFY REMOVAL OF THE CANAL FROM THE AGREEMENTS. WE WILL OF COURSE GIVE A CONSIDERED ANSWER IN DUE TIME, BUT THE IMMEDIATE REACTION IS TO WONDER WHY THE U.S. SHOULD FOREGO ITS RIGHTS IN THIS MATTER. KATZ ALSO SAW BROADER IMPLICATIONS IN A CANADIAN ATTEMPT TO UNRAVEL PART OF AN AGREED PACKAGE. TOWE RESPONDED THAT HE UNDERSTANDS THE BROADER IMPLICATIONS AND HE UNDERSTANDS WHY THE U.S. HAS FOUND IT NECESSARY TO REJECT TOLL INCREASES FROM TIME TO TIME OVER THE YEARS. THE PERCEPTION IN CANADA, HOWEVER, IS THAT CANADA IS STUCK WITH A BAD DEAL BY WHICH A U.S. PROCESS (INCLUDING REQUIREMENT FOR PUBLIC HEARINGS), CONTROLS A CANADIAN-OWNED AND OPERATED CANAL. THE SUGGESTION TO REMOVE THE CANAL FROM THE AGREEMENTS IS BASED ON THE PREMISE THAT THE U.S. IN FUTURE WILL BE UNABLE TO CONFIDENTIAL

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AGREE TO ADEQUATE TOLL LEVELS.

7. THE DISCUSSION THEN TURNED TO THE QUESTION OF TIMING. KATZ NOTED THAT PRIOR TO A TOLL INCREASE THE U.S. HAS CERTAIN PROCEDURAL REQUIREMENTS IT MUST FOLLOW, INCLUDING PUBLICATION IN THE FEDERAL REGISTER AND PUBLIC HEARINGS. SEAWAY OFFICIALS ESTIMATE THIS PROCESS WOULD TAKE THREE TO SIX MONTHS, AND THUS IT SEEMS CLEAR THAT AGREEMENT ON NEW TOLLS IS NOT POSSIBLE PRIOR TO THE 1977 SEASON. TOWE SAID THAT NEW TOLLS COULD BE ANNOUNCED AS LATE AS FEBRUARY, BUT NORMANDEAU ADMITTED THAT ONE-YEAR NOTICE TO ALLOW THE TRADE TO MAKE ITS ARRANGEMENTS WOULD NOT BE UNREASONABLE.

8. KATZ REITERATED THAT IT WOULD BE USEFUL TO RECEIVE CANADIAN ECONOMIC STUDIES. HE SAID IT IS NOT POSSIBLE TO SAY ANYTHING NOW ABOUT WHEN THE NEGOTIATIONS CAN BEGIN, WHETHER IT WILL BE IN JANUARY OR FEBRUARY, WHETHER UNDER THIS ADMINISTRATION OR THE NEXT. TOWE EXPRESSED THE HOPE NEGOTIATIONS CAN BEGIN UNDER THE CURRENT ADMINISTRATION. HE SAID THE CANADIAN SIDE NEEDS TO BE SEEN TO BE PURSUING THE DISCUSSIONS, AND IT WANTS TO RECEIVE ASSURANCES AS SOON AS POSSIBLE THAT THE OPERATING DEFICIT ON THE SEAWAY

WILL BE MET ANNUALLY. IT WAS AGREED THAT EXCHANGE OF TECHNICAL DATA IS THE NEXT STEP. KATZ CONCLUDED THE MEETING BY SAYING THAT WE ACCEPT THE CANADIAN SENSE OF URGENCY AND WE WILL PURSUE THE MATTER EXPEDITIOUSLY.

9. THE PRESS RELEASE TRANSMITTED IN SEPTTEL WAS SHOWN TO THE CANADIAN SIDE. WHILE THEY DID NOT APPROVE IT, THEY HAD NO MAJOR PROBLEMS WITH IT. KISSINGER

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